



CALIFORNIA

State Budget

2006-07

Introduction

The 2006 Budget Act signed by Governor Schwarzenegger fulfills the two principal budget priorities he put forth in his May Revision—improving the state’s fiscal health by: (1) paying down debt and building a reserve; and (2) fully funding education—while also providing critical funding for law enforcement, disaster preparation and services for abused and neglected children.

The Budget sets aside an unprecedented amount to address the state’s debt—a combined total of more than \$4.9 billion, or 4.7 percent of total General Fund resources available, by establishing a budget reserve of \$2.1 billion and early debt repayments of \$2.8 billion (See Figure INT-01).

At the same time, the Budget provides a record level of funding for the state’s K-12 schools and community colleges, fully funding the Proposition 98 guarantee. The Budget provides \$55.1 billion in education spending under Proposition 98, an increase of \$8.1 billion, or 17 percent compared to the 2004 Budget Act, which was Governor Schwarzenegger’s first budget. This funding increases total per-pupil spending from \$9,977 in 2004-05 to \$11,264 in this Budget, an increase of \$1,287 or 13 percent. With this infusion of new funding, the Budget funds several of the Governor’s education priorities, including restoration

of funding for arts and music, physical education, student counselors in grades 7-12, and a new, targeted preschool initiative.

The Budget also provides significant new resources to protect the public, as follows:

- \$256 million (\$163 million General Fund) to improve services to abused and neglected children.
- \$214 million (\$180 million General Fund) to improve the capacity of hospitals to handle disaster and epidemic related surges in demand for hospital care.
- \$196 million General Fund for law enforcement initiatives, including funding to help police departments cover the costs of booking fees, enhancements to law enforcement subventions, funding for methamphetamine eradication, funding for sexual assault felony enforcement grants to local governments, and grants to help county sheriffs and probation officers manage mentally ill offenders.

In addition, the Budget makes a substantial investment in improving California's transportation system. It provides \$1.4 billion to fully fund Proposition 42 for the second consecutive year, and it provides an additional \$1.4 billion for the early repayment of past loans from Proposition 42, for a total of \$2.8 billion. Of the \$1.4 billion repayment, \$446 million is designated for cities and counties for local road and street maintenance that would otherwise not be funded. Finally, the Budget provides \$250 million for deferred maintenance in the state park system.

Since the release of the May Revision, each of Wall Street's three main credit rating agencies has upgraded California's credit rating, citing the state's economic performance, revenue

Figure INT-01
Total Budget Set Asides
(Dollars in Millions)

Total Available Resources	
General Fund Reserve	\$1,630
Budget Stabilization Account	472
Total Available Resources	<u>\$2,102</u>
Debt Pre-Payments and Repayments	
Proposition 42 Prepayment	\$1,415 *
Transfer to Budget Stabilization Account (to Retire ERBs)	472
Special Fund Loans Repayment and Pre-payment	347
Pre-payment and Repayment of Reimbursements to Local Governments for State Mandated Programs**	296
Proposition 98 Settle-Up Pre-payment	150
Flood Control Subventions Pre-payment	100
GO Bonds Debt Pre-payment	32
Total Debt Pre-payments and Repayments	<u>\$2,812</u>
Total Budget Set Asides	\$4,914

* Includes \$200 million pre-payment from a special fund.

** Excludes school districts.

growth, and continuing progress in reducing the operating deficit. The 2006 Budget Act keeps California on a fiscally prudent path that provides a substantial reserve and pays down debt, while fully funding education and strengthening public safety.

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